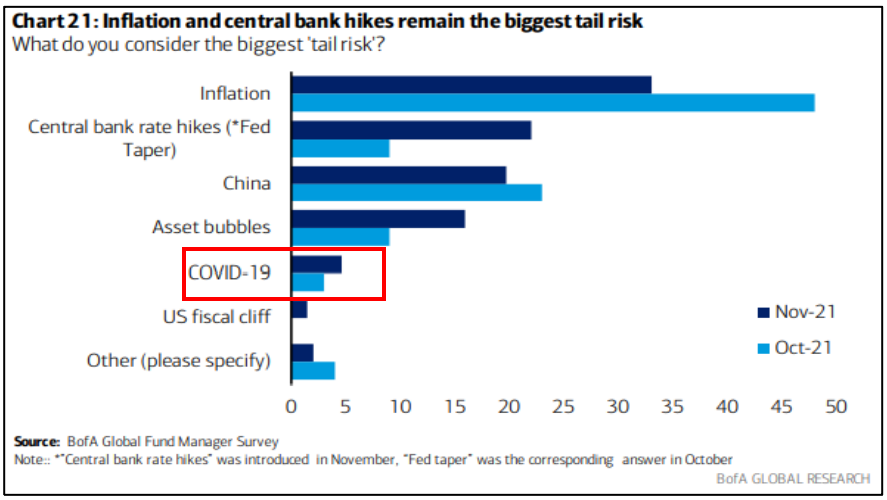
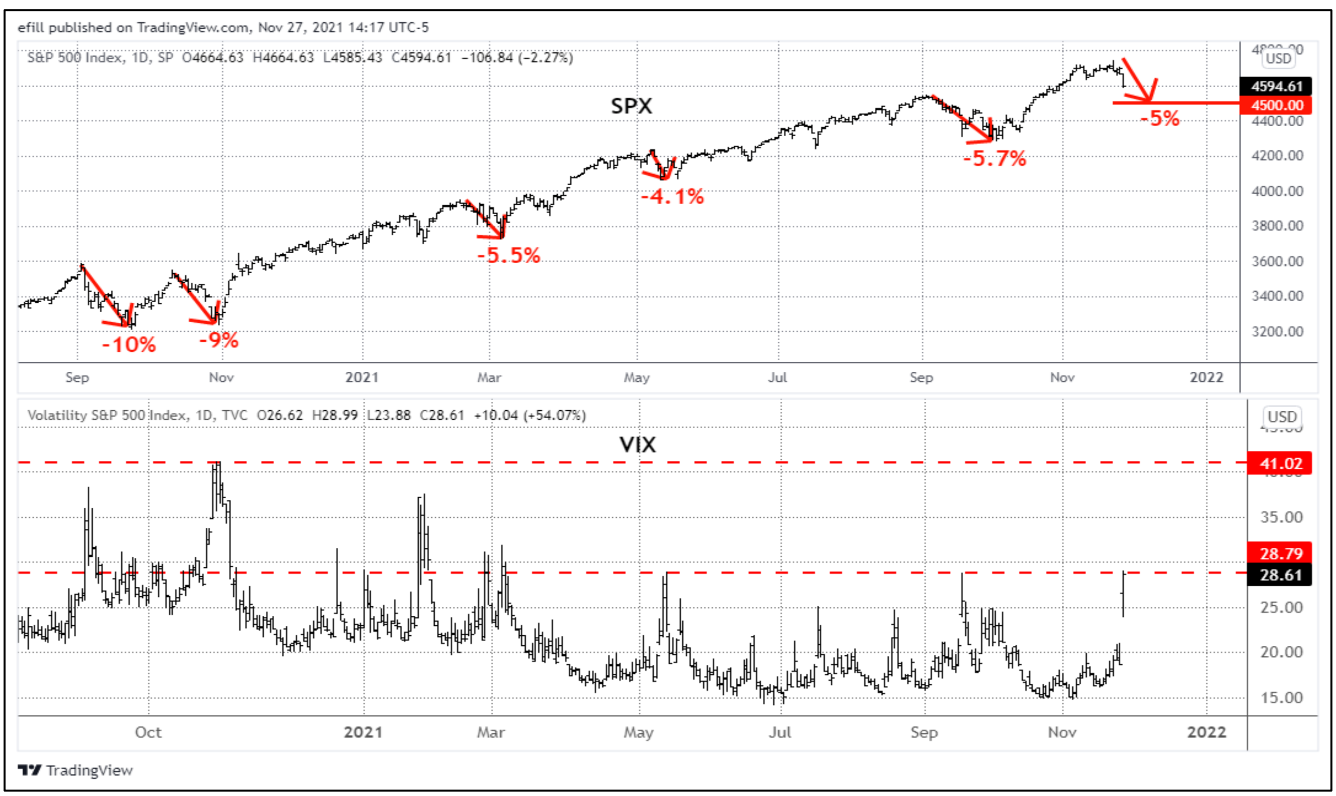
What to focus on in Global Macro for the week of November 29th, 2021

Macro Themes on the Radar:

OMICRON certainly sounds more ominous than either Nu or Xi, which the WHO apparently skipped over since Nu sounded too much like "new" and Xi would certainly have ruffled Chinese feathers. Will this "Variant of Concern" turn into something that delivers long-lasting consequences for global growth, is at this point unknown. Initial reports are all over the place.



What is clear, is that its emergence took markets by surprise. Only 10-days ago, COVID had almost become an afterthought compared to inflation concerns, and Fed policy. While Friday was ugly, the total pullback off the highs is rather minor, and the jump in vol., while meaningful, only reached the edge of what has been seen in recent selloffs.



I would guess, there is still more volatility to come. The size of a potential further selloff will depend on what kind of contagion we see across markets in the coming days.

Recently, with multiple instances of cognitive dissonance, narrowing market leadership, and a lengthy list of extreme price moves, it has felt like markets were coiled for a violent jump in volatility.

Given that we have no idea how big the current downdraft is likely to get, it is worth noting that there are some bigger picture concerns that have been building.

Risk-off events tend to occur like a bolt from the blue, or, as the old line goes, slowly at first, then all of a sudden. The type that builds, tends to allow macro-observers to spot capital flowing from the periphery (higher risk assets like EM and high yield) to the core (USD, Treasuries, and US Big Tech). In fact, that is exactly what we have been seeing recently. Treasury notes and bonds have been stubbornly bid, the dollar has been rallying, high yield credit has been under pressure, and big cap US tech has again been leading global equities.

I continue to closely monitor markets for breakouts/breakdowns while looking for relatively cheap ways to be long gamma.

<u>What to Focus on Now:</u>

Europe stands out to me as particularly vulnerable at the moment. Yes, the COVID news has been grim, but beyond that, technicals and positioning now leave it very exposed.

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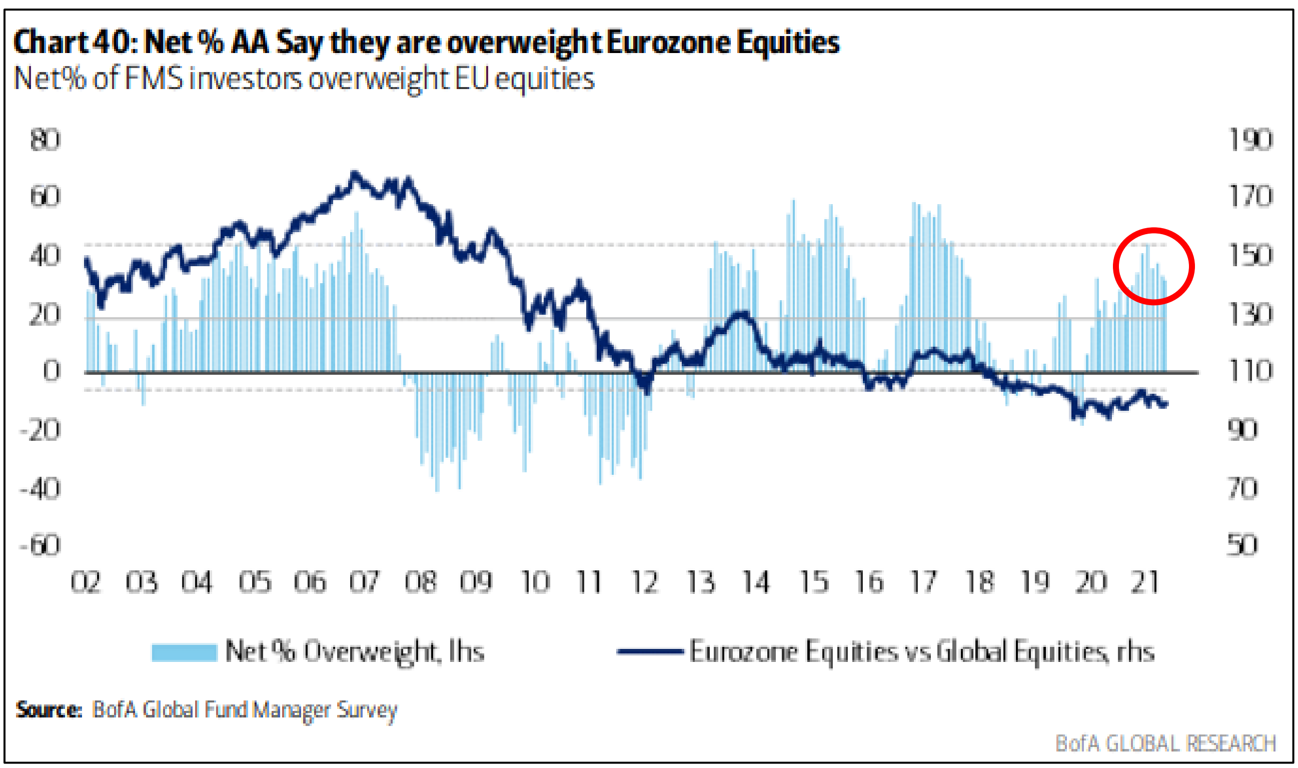
Europe had held its own all year, only trailing the US marginally. Last week, it broke down again, on a relative basis. Investors had piled in, seeking a cheap value play vs. expensive US stocks.



US investors, many of them also exposed to the EUR, could get squirely below the recent range.

The Hang Seng China proxy tends to move in the same direction as Europe… divergences close.

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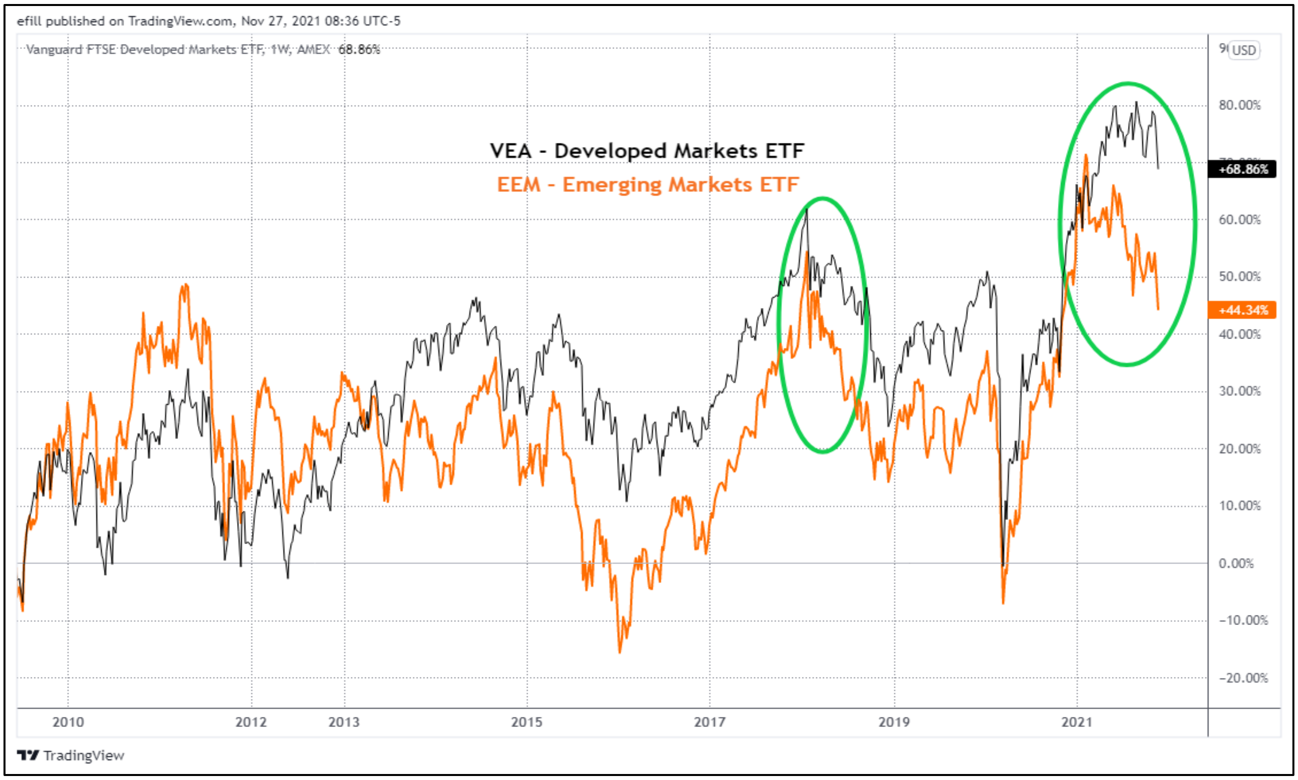
EEM with its heavy greater China weight has a similar relationship with DM ex-US markets.



EM ex-China had been holding up. That has now cracked as their currencies and stocks go down.

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The hope for further follow-through in the Russell suffered a big setback last week as we crashed back into the long-standing range. Capital went back to the core.

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Dollar strength vs. DM saw a big reversal on Friday, even as the dollar continued to push on vs. EM. Negative yielders like EUR, CHF, and JPY all did well as Fed hike expectations were revised.

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Fixed Income – US 30-year yields are now back at the bottom of the 5-month range.

While 10-year yields have been caught between alternately bearish and bullish flattening.

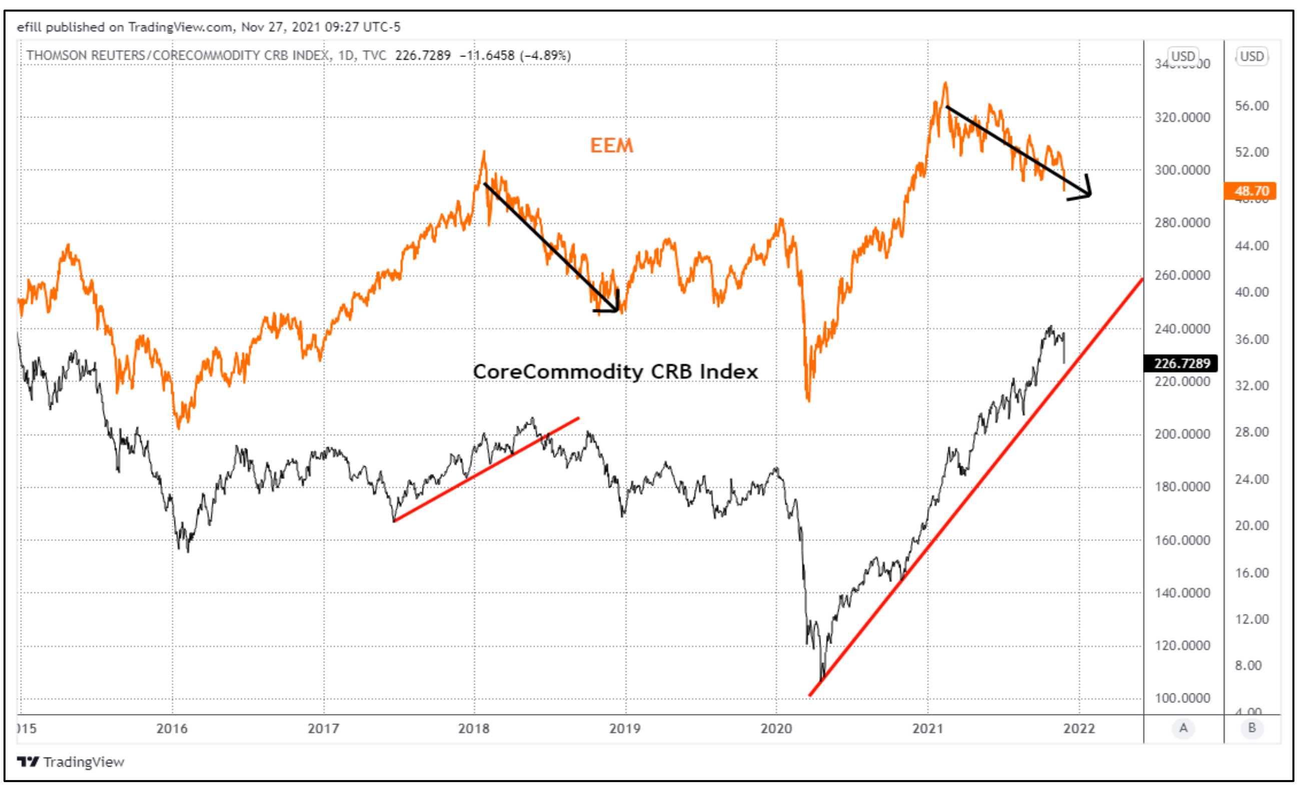
Friday took nearly a full hike out of what had become priced for Dec 2023…

And half a hike out of June 2022. Atlanta Fed's Bostic [spoke] on Friday, and was pretty undeterred regarding the potential for a speeding up of the taper, as he down-played the new variant.

High Yield had a tough week as it was alternately hit by higher yields, then wider credit spreads.

The same, plus currency weakness, played out in EM bond markets.

Commodities – Maybe it's different this time, because of energy supply issues and China weakness, but usually EM and commodities move together. Divergences eventually close.



Gold couldn't hold against a stronger USD, and higher front-end yields. Potentially even more disappointing, was that we saw almost no rally back when dollar / DM reversed course lower, and yields fell on Friday.

Crypto – If I was going to keep an eye on one crypto chart, this would be it.

In recent months, people have been observing that crypto has become more correlated to equities. Seems fair.

Important Macro Data Releases and Events for the Week

Monday
11/29/2021

- BoJ's Governor Kuroda speech
- **Fed's Chair Powell and Fed's Bowman speeches**
- NBS Manufacturing PMI (Nov)
- Non-Manufacturing PMI (Nov)

Tuesday
11/30/2021

- CPI Headline and Core
- **Fed's Chair Powell and Fed's Vice-Chair Clarida speeches**
- Caixin Manufacturing PMI (Nov)

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Wednesday 12/1/2021	EU	Markit PMIs across Europe (Nov, final)
	US	Markit Manufacturing PMI (Nov)
	US	ISM Manufacturing PMI (Nov)
	US	Fed's Beige Book
Thursday 12/2/2021	US	Initial Jobless Claims
	US	Initial Jobless Claims 4-week average
	US	Continuing Jobless Claims
	CN	Caixin Services PMI (Nov)
Friday 12/3/2021	EU	Markit Services and Composite PMIs across Europe (Nov, final)
	EU	Retail Sales (Oct)
	US	**Nonfarm Payrolls and Unemployment Rate (Nov)**
	US	Average Hourly Earnings and Participation Rate (Nov)
	US	Markit Services and Composite PMIs (Nov, final)
	US	Factory Orders (Oct)
	US	ISM Services PMI (Nov)

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